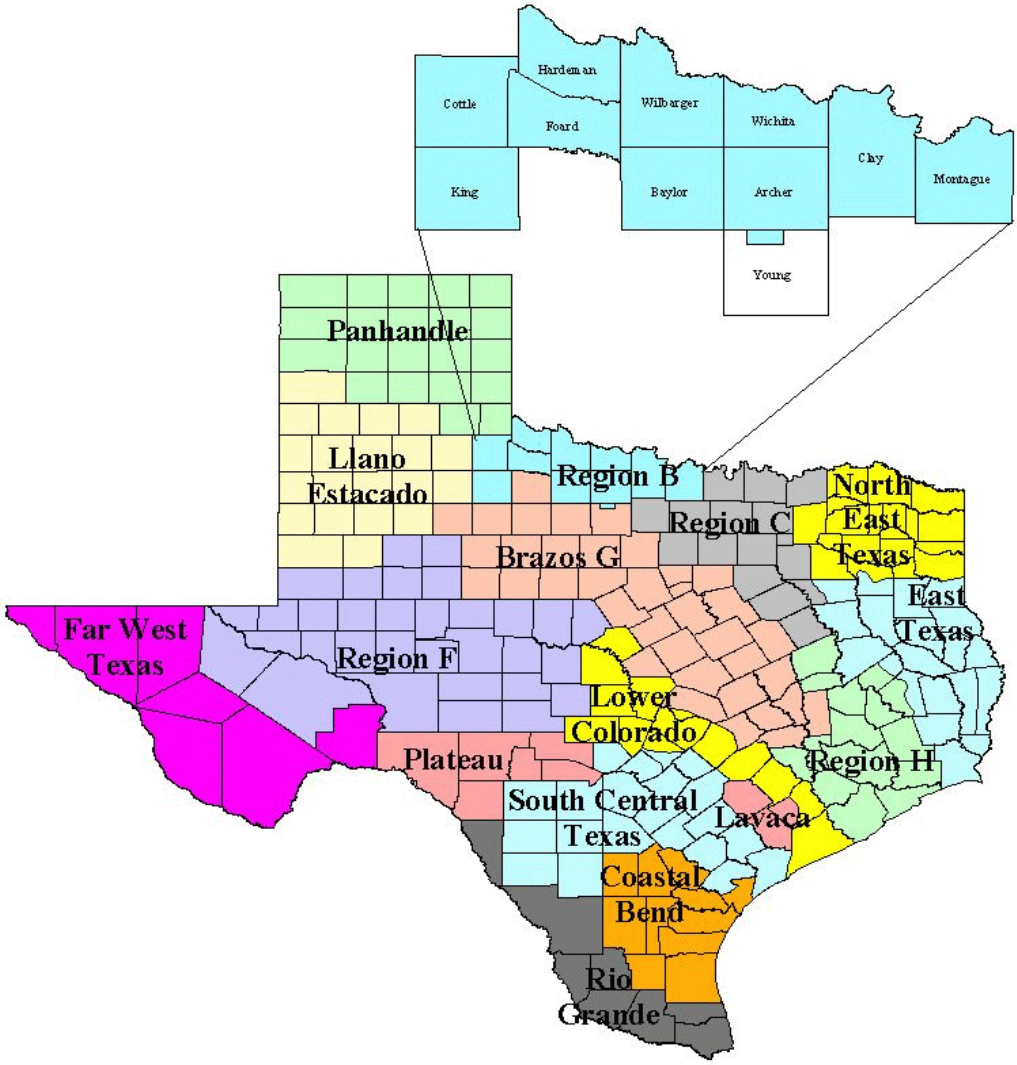
INFRASTRUCTURE FINANCING REPORT
TEXAS WATER PLAN
REGIONAL PLANNING AREA B



June 1, 2002

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INFRASTRUCTURE FINANCING REPORT
TEXAS WATER PLAN
REGION – B

INTRODUCTION

In 1997, the 75th Texas Legislature passed Senate Bill One, legislation designed to address Texas water issues. With the passage of Senate Bill One, the Legislature put a grass-roots regional process in place to plan for the water needs of the entire state for the next 50 years. To implement the planning process, the Texas Water Development Board (TWDB) created 16 regional water planning groups within the State and established regulations governing the planning efforts.

One of the sixteen planning groups, Region B, is located in north central Texas and consists of all or a part of eleven counties including: Archer, Baylor, Clay, Cottle, Foard, Hardeman, King, Montague, Wichita, Wilbarger, and the northern portion of Young County. Refer to the **Vicinity Map, Figure 1** for details. Region B lies mainly in the Red River Basin, however, southern parts of Clay and Montague Counties lie within the Trinity River Basin, and southern portions of Archer, Baylor, and King Counties lie within the Brazos River Basin.

Most of the population is concentrated in the eastern section of the region with more than 50% of the population located in and around Wichita Falls. According to the 2000 United States Census, the total population of the region was reported to be 201,946[1]. Based on this census data, the estimated population density of the region ranged from a high of 200 persons per square mile in Wichita County to a low of less than one person per square mile in King County. It is anticipated that the population for Region B will increase over the next 50 years by approximately 7.5%, reaching an estimated population of 216,914[2].

The overall water use for Region B is projected to increase from approximately 167,000 acre-feet per year in 1996 to 183,214 acre-feet in the year 2050, an increase of approximately 10% throughout the planning period. The total current available supply for the region is approximately 252,000 acre-feet per year. The total source supply utilized within all sectors comprises 75% surface water and 25% ground water. Major surface water supply sources in Region B include: Lake Kemp, Lake Diversion, Lake Kickapoo, and Lake Arrowhead. Additionally, an adequate supply of ground water is available in selected portions of Region B from the Seymour and Trinity Aquifers, and also the Blaine Aquifer, which is located in Cottle, King, Foard, and Hardeman Counties[3]. Refer to the **Comparison of Supply and Demand**, **Figure 2** within the Region B Planning Area.

Regional Water Planning Area B
Vicinity Map

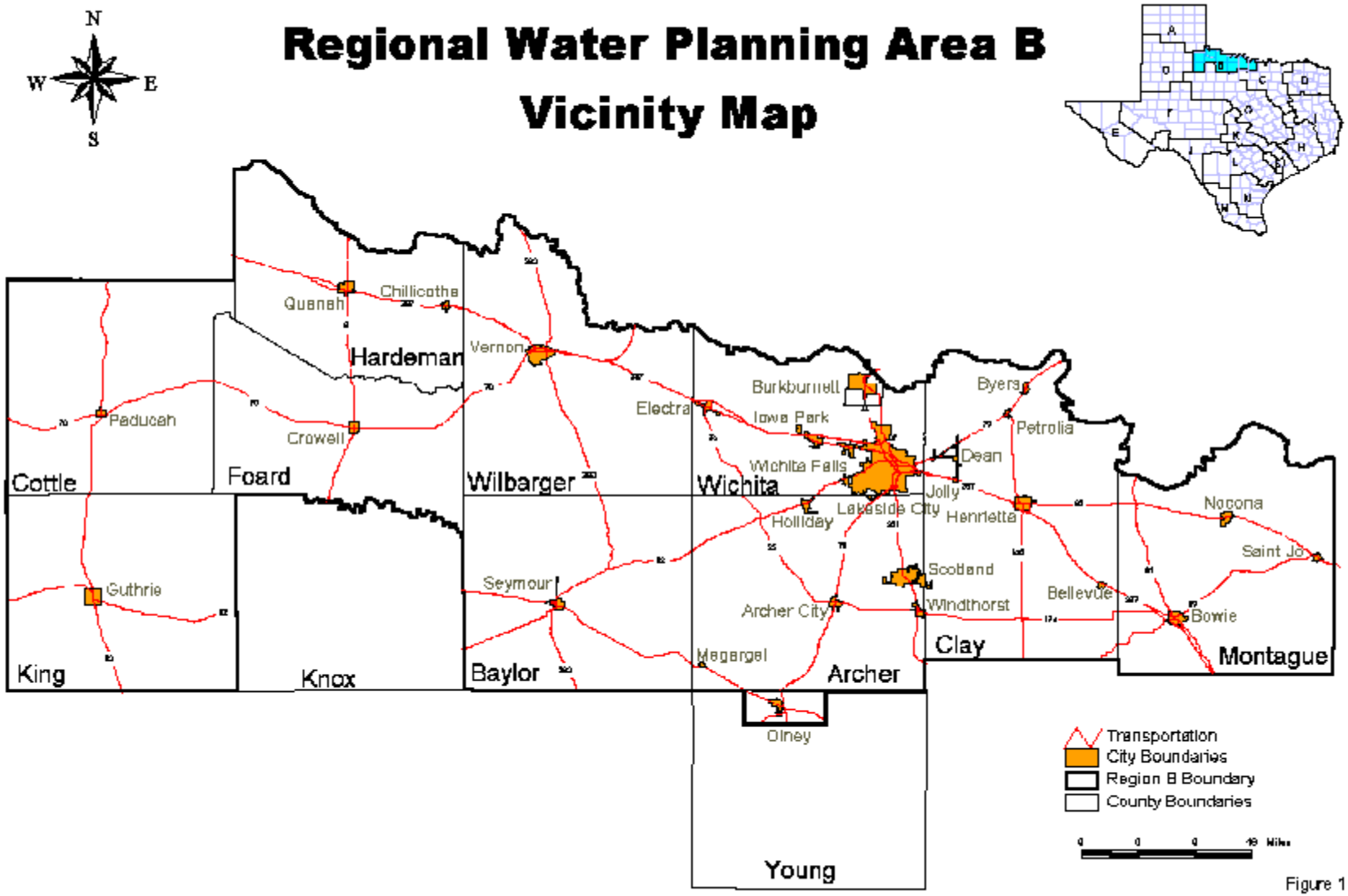
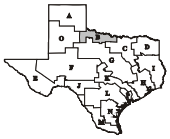


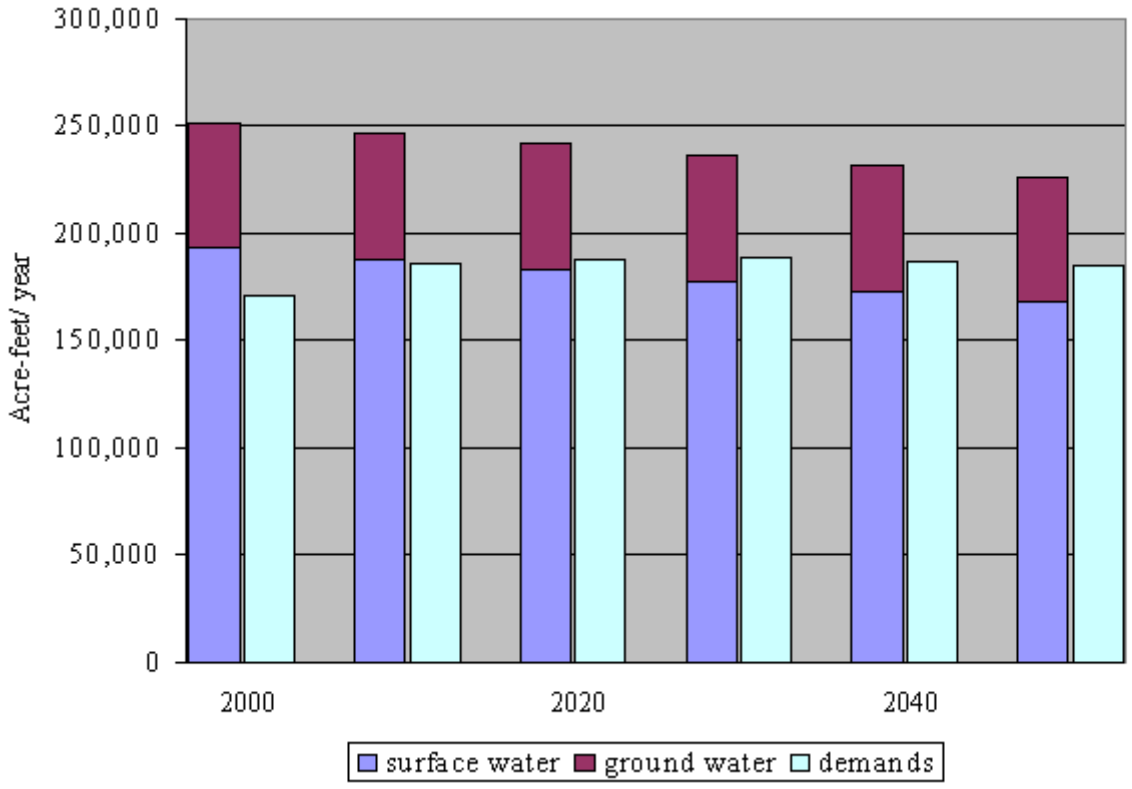
Figure 1

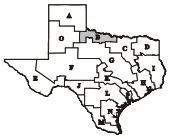


INTRODUCTION (continued)

The region as a whole has an adequate supply available to meet the long-term water needs in light of the minimal projected growth of 7.5% over the next 50 years. However, much of the available surface and ground water supplies exhibits higher than acceptable concentrations of dissolved solids in the form of chloride, sulfate, and nitrate. The following chart (Figure 2) represents a comparison of the total water supplies (surface and ground water) to the total demand within Region B over the next 50 years[4].

FIGURE 2
COMPARISON OF SUPPLY AND DEMAND



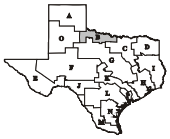


PURPOSE OF THE STUDY

Senate Bill Two (77th Texas Legislature), included a new element, the Infrastructure Financing Report (IFR), to be incorporated into the regional water planning process. For purposes of the IFR, each regional water planning group (RWPG) is required to examine the funding needed to implement the water management strategies for projects identified and recommended in the recently approved regional water plans. Results of this effort are due to the Texas Water Development Board (TWDB) by June 1, 2002. The TWDB proposes to consolidate the reports from the 16 regional water planning areas and compile a report to the Texas Legislature no later than October 1, 2002. The primary objectives of the IFR are as follows:

- To determine the number of political subdivisions with identified needs for additional water supplies that will be unable to pay for their water infrastructure needs without some form of outside financial assistance;
- To determine how much of the infrastructure costs in the regional water plans cannot be paid for solely using local utility revenue sources;
- To determine the financing options proposed by political subdivisions to meet future water infrastructure needs (including the identification of any State funding sources considered);
- To determine what role(s) the RWPGs propose for the State in financing the recommended water supply projects; and
- Provide policy recommendations concerning suitable alternatives for financing water infrastructures in Texas.

There are two essential elements to the IFR, (1) surveys and (2) RWPG policy recommendations on the State's role in financing water infrastructure projects. The Red River Authority of Texas was charged with completing the first element, which included a mailed survey to the water use entities, personal interviews with officials representing the water use entities, and concluded with a site visit to review plans, specifications, and/or determine the current status of the selected strategy implementation phase. The Authority mailed six survey questionnaires and received six completed responses. A follow-up site visit and personal interview with entity officials was conducted with each of the six entities to obtain a better understanding of the strategy implementation and determine if any conflicts were or are being encountered with each.



PURPOSE OF THE STUDY (continued)

From the information obtained in the surveys and interviews, the Regional Water Planning Group for Area B participated in the development and selection of specific policy recommendations for funding water management strategies that were determined to be beyond the reasonable financing capability of the individual water user groups requiring water infrastructure development.

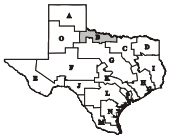
RECOMMENDED WATER MANAGEMENT STRATEGIES

The 2001 Water Plan for Region B identified ten specific needs of which six Water Management Strategies were developed to ensure that local water user groups would be able to meet their long-term water resource needs. Each of the strategies was approved by the water use entity, the Regional Water Planning Group, and subsequently included in the State Water Plan. The total estimated capital cost for infrastructure to meet the identified needs and implement the selected strategies amounted to **$145,358,000**[5], collectively. Of the total amount, **$1,061,751** was identified as unfunded without outside state or federal subsidies to the individual water user groups experiencing economically distressed or hardship conditions.

For each of the remaining six identified needs, water management strategies were developed based on the outcome of workshop discussions with the water user group affected and the Regional Water Planning Group – B (RWPG-B) Technical Advisory Committee. The potentially feasible strategies were then evaluated with respect to:

- Quantity, reliability, and cost,
- Environmental factors,
- Impacts on water resources and other water management strategies,
- Impacts on agriculture and natural resources, and
- Other relevant factors.

Strategies for Region B were developed to provide water of sufficient quantity and quality that is acceptable for its end use. As previously mentioned, water quality is a primary concern for many users in Region B and affects water use options and treatment requirements. For the evaluations of the strategies, it was assumed that the final water product would meet existing state water quality requirements for the specified use. For example, a strategy that provides water for municipal supply would meet existing drinking water standards, while water used for mining may have a lower quality. Strategies that improve water quality of other existing supplies, such as chloride control projects, were also considered as beneficial to the region and evaluated under the same criteria.



RECOMMENDED WATER MANAGEMENT STRATEGIES (continued)

Water supply needs were identified for the City of Wichita Falls, City of Vernon, Hinds-Wildcat and Lockett Water Supply Systems, and the City of Electra. Other water needs or conflicts identified in the planning process, but subsequently resolved prior to publication, are briefly discussed for background reference. For each of the water user groups having an approved water management strategy, various alternatives were analyzed with respect to their technical and economic feasibility, together with the financing alternatives selected for implementation. Cost estimates were prepared in accordance with the TWDB Guidelines (31 TAC Chapter 357) and included for each strategy.

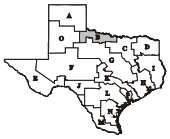
Each water user group participated in the evaluation of alternatives and the selection process prior to inclusion in the Regional Water Plan for Region B, and submission to the TWDB. Based on the results of the IFR investigation for each of the water user groups and/or entities, all of the selected water management strategies are being pursued as planned without significant deviations at this time.

ASSESSMENT OF WATER MANAGEMENT STRATEGIES

Pursuant to the legislative charge under Senate Bill Two, the Regional Water Planning Groups were to conduct a written survey of each water user group identified by the selected water management strategy and determine the entity's ability to produce the required capital for strategy implementation. This has been accomplished through written surveys to each of the six entities with sufficient follow-up to ascertain any fiscal conflicts that might impede strategy implementation.

The following discussion provides a brief description of each water management strategy, an assessment of their capital cost, conflicts encountered to date, and their current implementation status. Additionally, sources of financing alternatives for strategy implementation were identified and information regarding funding sources for future capital improvements was solicited and included where applicable. Water rates of affected systems were reviewed to ascertain the basic economic impacts to customers with strategy implementation and reported as an average percent increase to residential customers. Water conservation plans were evaluated to determine plan effectiveness based on current and previous year water usage and reported as a percent and quantity decrease in average water use per connection or household.

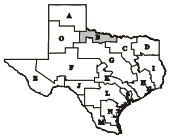
The following **Table 1** provides a summary of the water management strategy assessment for each water user group, their proposed funding method(s) and source(s), and the entity's ability to obtain sufficient financing to implement the strategy.



ASSESSMENT OF WATER MANAGEMENT STRATEGIES (continued)

RECOMMENDED WATER MANAGEMENT STRATEGIES
REGIONAL WATER PLANNING GROUP – AREA B
Table 1

Water User Group	Strategy	Capital Cost	Funding Source	Unable to Pay
City of Wichita Falls	Desalination with Reverse Osmosis	$60,560,000	Revenue Bonds	$0
City of Vernon	Ground Water Supply Nitrate Removal	3,783,000	TWDB SRF Loan	0
County Other – Hinds-Wildcat	Purchase Treated Water from Vernon	648,000	TWDB Loan/Grant	548,208
County Other – Lockett	Nitrate Removal System	510,000	TWDB Loan/Grant	206,550
City of Electra	Ground Water Supply Reverse Osmosis	2,357,000	TWDB Loan/Grant	307,000
Regional	Chloride Control Project	77,500,000	Federally Funded	0
County Other – Byers	Purchase Water from Wichita Falls	0	N/A	0
County Other – Friberg-Cooper	Purchase Water from Wichita Falls	0	N/A	0
Manufacturing	Purchase Water from Vernon	0	N/A	0
Steam Electric Power	Renew Contract with WCWID No. 2 and Wichita Falls	0	N/A	0
Total Capital Needs in Region B		**$145,358,000**	—	**$1,061,758**

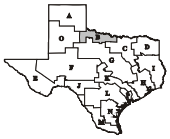


Wichita County – City of Wichita Falls
Strategy WF-2: Water from Lake Kemp/Diversion Reservoirs

The City of Wichita Falls currently has water rights for 25,150 acre-feet of Lake Kemp and Lake Diversion water for municipal use. However, due to the high salinity content of the water, the City has not utilized it as a municipal water supply. Aside from water quality, this reservoir system would be a very reliable source of water supply in that it is in a different watershed than Lake Arrowhead and Lake Kickapoo, the other two lakes utilized for municipal purposes by the City of Wichita Falls. To utilize 11,000 acre-feet per year (about 10 million gallons per day) (MGD) of Lakes Kemp/Diversion water, a pump station, and approximately 13 miles of 42" transmission line would be required to convey the water from the reservoir system to the Cypress Water Treatment Plant (WTP) located on the southwest side of Wichita Falls. Additionally, Cypress WTP improvements will be required to include micro filtration and reverse osmosis for enhanced treatment of the high salinity water. Facilities will also need to be constructed for reject brine disposal into the Wichita River.

An estimate of the capital cost for this strategy was $60,560,000 with a projected annual cost of $7,346,000. The City of Wichita Falls issued revenue bonds to provide sufficient capital for the proposed management strategy and other system improvements. The debt is scheduled to be repaid through increased user rates and underwritten by local taxes. The new water rates were placed into effect in March 2001 and impacted the water users with an average increase of 72%. According to city officials[6], no additional outside financing will be required to fully implement this strategy. The selected water management strategy is currently in the design phase and includes a pilot model for testing purposes to ensure technical feasibility of the proposed advanced treatment technology to be employed. Construction is to begin in late 2002 and expected to be complete by the end of 2003.

It should be noted that the City of Wichita Falls also chose to implement one of the alternative strategies developed during the planning process. The other strategy, wastewater reuse, will be to reclaim up to 14,300 acre-feet per year (about 10 MGD of the 13 MGD, average discharge) for use in reducing the industrial and irrigational demands on the drinking water system as a major conservation effort. This strategy requires advanced treatment of the wastewater discharge of the River Road Wastewater Treatment Plant (WWTP) to include de-nitrification, micro filtration, and ultraviolet disinfection. A 30" pipeline and 10 MGD pump station will be installed to convey the treated effluent to a secondary reservoir for final treatment, storage, and distribution. The estimated cost for this strategy was $48,700,000 and was included in the bond issue for the selected water management strategy described above. It, too, is planned for implementation concurrently with the drinking water strategy.



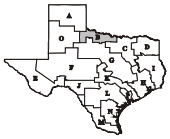
Wichita County – City of Wichita Falls
Strategy WF-2: Water from Lake Kemp/Diversion Reservoirs (continued)

The City has had a water conservation and drought management plan in effect since 1992 and subsequently revised it to comply with the requirements of SB-1. However, due to the extended drought conditions, it is difficult to determine the plan's actual effectiveness. A reported 24% reduction in total water usage was recorded, but this included a period when mandatory water rationing was in effect. For an evaluation of the plan's effectiveness, two annual periods were selected for review exclusive of the water rationing period and only the residential customers were included. The model result appears to be more representative of the actual plan effectiveness and indicates the average household water usage is currently164 gallons per connection day (GPCD), a reduction of about 11% over the model period of 184 GPCD (year 2000).

Wilbarger County – City of Vernon
Strategy V-3: Development of Additional Ground Water or Surface Water Supplies

The City of Vernon chose to implement this strategy in a phased approach in that other system needs can be addressed during construction phases of the process. This is currently being accomplished in three progressive phases of implementation. The first phase is construction of a new ground storage tank and the Odell-Winston Well Field. Phase two is construction of a transmission line and elevated storage tank between the Schmoker Well Field and the Rhodia Processing Plant. Rhoda can continue to utilize water with current nitrate concentrations for its processing needs while reducing the nitrate removal facility's capacity requirement and capital cost. Phase three will consist of construction of an enclosed ion-exchange facility in Vernon to receive and process ground water from any of its existing or proposed well fields. The water will then be treated for nitrate removal at an approved treat/blend ratio for distribution.

The City is continuing negotiations to purchase an additional ground water or surface water supply from the City of Altus, Oklahoma. The proposed ground water source is located on the Round Timber Ranch in Wilbarger County, Texas, near the Texas-Oklahoma border. The surface water source would come directly from the City of Altus through an existing transmission line. Three miles of new 14" transmission line would be connected to an existing 24" pipeline at the Winston Well Field.



Wilbarger County – City of Vernon (continued)

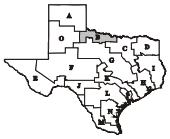
Strategy V-3: Development of Additional Ground Water or Surface Water Supplies

In the event surface water is not acquired, then the redevelopment of 13 existing water wells, new well controls and pumps, and refurbishment of an existing pumping station will occur. The additional water (surface or ground water) supply would then be transported to the City's nitrate removal plant via an existing 21" and 24" pipeline.

The estimated capital cost for this strategy was originally $3,783,000 with a projected annual cost of $429,000. However, the City has since expanded the strategy to include additional capital improvements with greater long-term benefits found in overall reduction of water utilized, treatment, and disposal costs. The final capital cost of the project is $5,665,000 and the City of Vernon sold its certificates of obligation to the Texas Water Development Board's Drinking Water State Revolving Fund (SRF) to facilitate implementation of this water management strategy and other system improvements. The debt is scheduled to be repaid through increased user rates and underwritten by local taxes. The new rates were placed into effect in October 2000 and impacted water users by about 35%.

The City of Vernon let bids in February 2002 and anticipates construction of major components of the strategy to begin in May 2002, or earlier. The nitrate removal system and increased production from the expanded ground water development are expected to be in service by May 2003 also. According to city officials[7], no additional outside financing is anticipated to fully implement this strategy. The affected population of the City is approximately 12,590.

The City has revised and implemented its water conservation and drought management plan in accordance with the requirements of SB-1. The water conservation plan implemented appears to be effectively reducing the household water use from 243 gallons per connection per day (GPCD) to 214 GPCD, or approximately 12% over the previous year of record.



Wilbarger County Other – Hinds-Wildcat Water System
Strategy: Source Supply Pipeline

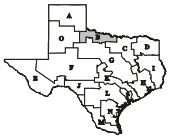
The Hinds-Wildcat Water System purchases its water from the City of Vernon in Wilbarger County and has an adequate source supply of water, but the water quality exceeds the Maximum Contaminant Level (MCL) for nitrate. The selected alternative is a 2.5-mile, 6" pipeline from Vernon's treatment plant and enhancement of the pressure maintenance facility at the pump station located north of County Road 925. Vernon would then provide the Hinds-Wildcat Water System with the same quantity of treated water blend (40 acre-feet per year) that would effectively meet the drinking water standards for nitrate.

The estimated capital cost for this strategy was $648,000 with a projected annual cost of $52,000. It is anticipated that a loan through the Texas Water Development Board would be utilized to finance the implementation of this strategy. However, the Hinds-Wildcat Water System serves a rural farming community with only 65 active domestic connections. The proposed capital improvements will place an extreme economic hardship on the customers of this water system. The affected population of this rural community is about 164.

According to water system officials[8], the rural water system has no tax base and the entire debt must be repaid through increased user rates. A cursory review of the system's rate structure indicates a rate increase to support this new debt alone would cost the users an additional $67.70 per meter per month, making the average monthly water bill for the customers about $113.00 for 10,000 gallons usage.

The proposed strategy was scheduled for implementation in late 2003, but is currently pending the outcome of locating supplemental grant funds to support the required capital improvements as planned. Therefore, no financing has been obtained to implement the proposed strategy at this time. The only other option available to the Hinds-Wildcat Community Water System to achieve compliance with the public drinking water standard for nitrate is to continue to provide bottled water to families having expectant mothers and/or infants under the age of six months. This would certainly appear to be the most economically feasible alternative unless a viable source of grant funding is obtained.

The Hinds-Wildcat Water System has had a conservation plan and a drought management plan in effect since 1988. Both were revised to comply with the new requirements of SB-1 and implemented. An evaluation of the plan's effectiveness indicates the household water usage for the system is 260 gallons per connection per day (GPCD), a reduction of about 7% over the previous water use year of 281 GPCD.



Wilbarger County Other – Lockett Water System
Strategy L-2: Nitrate Removal System

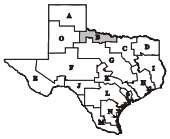
The City of Vernon provides the Lockett Water System approximately 10 acre-feet per year of water via a 4" pipeline. The remainder of Lockett's water supply (approximately 100 acre-feet per year) is produced from local wells in the Seymour Aquifer. The selected strategy for the Lockett Water System is a nitrate removal system (ion exchange unit) and is briefly described as follows:

Lockett would install a small nitrate removal system to treat high nitrate water pumped from its existing well system, and continue to purchase a small amount of the treated, blended water from Vernon to supplement its peak demands in the summer. It is assumed that the 100 gallons per minute (gpm) ion exchange treatment plant would be sufficient to process Lockett's current supply and meet peak demands. The plant would be installed near Lockett's well field and storage tank, approximately eight miles southwest of Vernon. The waste stream from the treatment plant would be small, approximately 0.5 gpm.

Since there are no wastewater treatment facilities near the Lockett well field to accept the waste discharge, the waste stream would need to be discharged to a 0.25 acre evaporation pond, located near the treatment plant. Based on existing water quality data, a 60% treated to 40% untreated blend would result in effectively reducing the nitrate concentrations below the current maximum contaminate level (MCL) or drinking water standard.

The estimated capital cost for this strategy was $510,000 with a projected annual cost of $47,000. It is anticipated that a loan through the Texas Water Development Board would be utilized to finance the implementation of this strategy. However, the Lockett Water System also serves a rural farming community with only 259 active domestic connections. The affected population of this rural community is about 696 people.

According to system officials[9], the proposed capital improvements would impose an economic hardship on the customers of this water system. Since the water system has no tax base, the entire debt must be repaid through increased user rates. A cursory review of the system's rate structure indicates the increase alone would cost the users $15.29 per meter per month, making the average monthly bill for the customers served by this water system about $84.48 for 10,000 gallons usage. Therefore, outside grant funding is being sought in an effort to defray the economic hardship to the customer base and implement the required capital improvements as planned. Pending the outcome of successfully obtaining supplemental grant funds, the proposed strategy is planned for implementation in 2004.



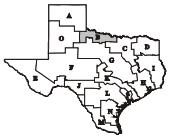
Wilbarger County Other – Lockett Water System
Strategy L-2: Nitrate Removal System (continued)

The only other option available to the Lockett Water System to achieve temporary compliance with the drinking water standard for nitrate is to continue to provide bottled water to families having expectant mothers and/or infants under the age of six months. This would appear to be the most economically feasible alternative unless a viable source of grant funding is made available.

The Lockett Water System has had a conservation plan and a drought management plan in effect since 1988. Both have been revised to comply with the new requirements of SB-1 and implemented. A review of the plan's effectiveness indicates the household water usage for the system was 235 GPCD, a reduction of about 4% over the previous usage of 243 GPCD.

Wichita County – City of Electra
Strategy E-1: Expand Well Field and Construct Reverse Osmosis System

The City of Electra is located in the northwest part of Wichita County. The plan initially includes reopening and renovating several capped wells at the existing well field and installing a reverse osmosis (RO) treatment unit at the River Plant. The ground water in Electra's well fields contains high concentrations of dissolved chlorides and nitrate, which exceed the minimum drinking water standards. The poor quality water will be treated by reverse osmosis and the remaining portion will be treated with the current method of sand filtration. Before entering the transmission line, the two treated streams will be blended and transmitted to town via the existing pipeline. The result will be water that is low enough in salts and nitrates to meet the drinking water standards. In addition to the redevelopment of the existing well field, the strategy includes the acquisition and development of three different well fields: Lalk, Sefcik, and Elliot. The fields range from two miles to six miles away from the existing treatment plant. As demand requires, new wells would be drilled at the other well fields and water would be transmitted to the existing reverse osmosis plant for processing and blending as necessary with the total supply.



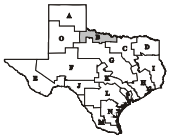
Wichita County – City of Electra
Strategy E-1: Expand Well Field and Construct Reverse Osmosis System (continued)

The estimated capital cost for this strategy was $2,357,000 with a projected annual cost of $372,000. The City of Electra sought and received a Small Towns Environmental Program (STEP) grant in the amount of a $350,000 and a loan through the Texas Water Development Board in the amount of $1,700,000 to initiate an emergency plan to obtain a sufficient quantity of water to offset the deficit brought on by the extended drought. Additional funding ($307,000) will need to be acquired to complete the proposed capital improvements as planned. The City of Electra increased its water, sewer, and tax rates to support the additional new debt. The water rates were designed to encourage conservation and the City incorporated the inverted block demand type rate structure, which was placed into effect in March 2001.

A cursory review of the City's water rate structure indicates the increase is impacting the water users an additional $11.30 per meter per month. This makes the average monthly bill for the customers served within the city about $50.50 for 10,000 gallons usage. This represents a 28% increase over the previous water rate structure employed by the City. The affected population of the City is approximately 3,340.

A review of the new conservation type rate structure shows its effectiveness over their conventional rate model by reducing the average household water usage from 285 GPCD to 211 GPCD, a decrease of about 26%. This reduction may be partially attributed to the lack of available supply, but has definitely proven successful in reducing the overall water consumption.

According to city officials[10], the additional capital needed is being sought through state or federal grant funding sources. Assuming that adequate grant funding can be obtained, they anticipate completion of the proposed system improvements by August 2003. The current strategy is approximately 80% complete at this time, and the component remaining is to develop new wells to supplement the existing ground water source supplies.

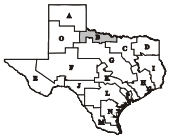


Regional – Reclamation of Lake Kemp-Diversion System
Strategy: Implementation of the Wichita Basin Chloride Control Project

The concentration of dissolved salts, particularly chloride and sulfate, in some surface waters in Region B, limits the use of these waters for municipal, industrial, and agricultural purposes. The Red River Authority of Texas is the local sponsor and has been working in cooperation with the Tulsa District, United States Army Corps of Engineers (USACE) for a number of years on a project to reduce the chloride concentration of waters in the Red River Basin. The successful completion of this project would result in an increase in the volume of water available for municipal and industrial purposes in Region B, and surface water would be available for a broader range of agricultural activities. Therefore, the Chloride Control Project (CCP) was included in the Regional Water Plan for Region B[11] as one of the most economically and technically feasible water management strategies for meeting the water supply needs of the area over the next 50 years.

The primary strategy for reducing the flow of highly saline waters to the Wichita River is to impound the highly concentrated brine flows behind inflatable dams or weirs in the headwaters of the South, Middle, and North Forks of the Wichita River during low-flow periods and pump the saline waters to the Truscott Brine Reservoir for final disposal. Impounded water in the Truscott Reservoir is then allowed to evaporate naturally. During high-flow periods, when the chloride concentration is lower, the water is allowed to flow past the low-flow structures and proceed downstream.

The estimated capital cost for this strategy was $77,500,000 with a projected annual cost of $5,989,000. Funding for this strategy is being provided through federal appropriations and the final project reevaluation and supplemental environmental impact assessment is scheduled to be published in June 2002. Pending a favorable report and benefit-to-cost analysis, the Supplement to the Final Environmental Impact Statement will be issued for public review and comment. It is anticipated that the Wichita River Basin portion of the Chloride Control Project will be completed and fully operational by the year 2007. Currently, the South Fork is in operation and controlling up to 80% of the brine entering the Lake Kemp watershed or about 40% of the total brine load of the three forks of the Wichita River system.



Regional – Reclamation of Lake Kemp-Diversion System
Strategy: Implementation of the Wichita Basin Chloride Control Project (continued)

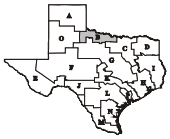
Although no state or local funding is required for this strategy, it is desirable that the Texas Legislature encourage all natural resource agencies to pledge their full support for the continuance and completion of the Wichita River Basin Chloride Control Project as described in an effort to expedite implementation of the proposed water management strategy. All water use sectors within Region B stand to benefit greatly from the project completion and would effectively reduce treatment cost for end users of the reclaimed water supply impounded in the Lake Kemp-Diversion system. The project's current benefit-to-cost analysis exceeds 2.0:1. That is, for each dollar invested as project cost, better than $2.00 will be returned in the form of benefits to the region for all water user groups.

Regional – Other Identified Needs
Impacting One or More Water Management Strategies

Other considerations enumerated in TAC 357.7(a), such as inter-basin transfers and third party impacts due to redistribution of water rights, were not specifically addressed because they were not applicable to any strategies or needs identified in the Region B Water Plan. There were, however, three other water user groups identified as having a possible need or conflict, and subsequently included in the 2001 Water Plan for Region B. They are as follows:

Wichita County Other – City of Byers, Friberg-Cooper

During the development of the 2001 Water Plan for Region B, the City of Byers and Friberg-Cooper Community were identified as having water quality and quantity needs due to the decline in their existing well fields and the existing water supplies containing excessive concentrations of nitrate. However, prior to completion of the water plan, these water user groups entered into individual contracts to purchase treated water from the City of Wichita Falls, and constructed transmission lines from the northeast side of Wichita Falls to their primary storage facility for blending and supplemental supply prior to distribution. These were financed with local funding and the improvements have been completed. No additional funding is required at this time.



Wilbarger County Other – Manufacturing

The comparison of supply and demand displayed short-term and long-term supply needs for the City of Vernon and manufacturing in Wilbarger County. Since the City of Vernon provides nearly all of the water for manufacturing within the county, water needs for both user groups were examined together. The analysis showed an immediate need in the year 2000, which was temporarily met by over drafting the City's existing ground water sources and implementing conservation measures. However, additional source water supply will most likely be needed within the next decade. As the City of Vernon develops additional ground water supplies included in its current water management strategy, the Wilbarger County manufacturing deficiency will be fully resolved. In the interim, Vernon assigned its in-town wells containing high nitrate to the industrial users, thereby removing the demand from the drinking water supply wells.

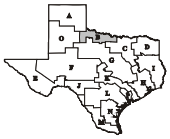
Wilbarger County Other – Steam Electric Power Plant

During the development of the 2001 Regional Water Plan for Area B, a water use contract for a coal-fired electric generating plant was being renegotiated that could have impacted the demand on the Wichita Falls system. However, no changes in water demand were established prior to publication of the plan or as of this date.

ALTERNATIVES FOR INFRASTRUCTURE FINANCING

The 2002 Regional Water Plan for Area B identified $145,358,000 of new capital needed for water infrastructures within the 11-county planning area over the next 50 years. Of the $145 million of capital identified for Regional Planning Area B, only $1,061,758 cannot be funded through conventional means. That is, the three public entities affected, the City of Electra, Lockett Community, and Hinds-Wildcat Community, are seeking state or federal subsidies to implement the proposed water management strategies to improve the economic feasibility and reduce the cost burden to the customer base.

For the State as a whole, the Texas Water Plan identified $17.9 billion in capital needs for water supply, $41.7 billion for infrastructure, $47.0 billion for wastewater and $2.1 billion for flood control. The total estimated capital needs through the year 2050 is $108.7 billion.



ALTERNATIVES FOR INFRASTRUCTURE FINANCING (continued)

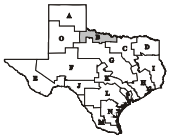
Traditionally, there are but a few methods of generating capital for public and/or private entities to call upon in the fulfillment of their individual financing needs. All forms of debt must be supported by net revenue pledges to cover the cumulative debt services and operating costs. This is usually accomplished with increased user rates and/or tax pledges. Some of the most common methods are briefly described for background reference and will form the basis for development of Policy Recommendations with regard to meeting the long-term financing needs in the Region B Planning Area. These would also be applicable to the State of Texas as a whole. Some of the most popular financing alternatives are described as follows:

GENERAL OBLIGATION OR REVENUE BONDS:

Public water supply entities all typically rely on their own ability to generate capital for water infrastructure and other capital projects through the issuance of bonded debt or other similar types of debt obligations incurred on the part of the local public entity. The debt is usually supported by a net revenue pledge that is generated from user rates, taxes, or in some cases, both. In other words, the debt is supported by the people benefitting from the capital development. This is the most common method of financing water and wastewater infrastructure for public utilities such as cities, water districts, and other local governments. General obligation or revenue bonds may be sold on the public bond market or purchased by another governmental agency such as the Texas Water Development Board or United States Department of Housing and Urban Development. The entity's credit worthiness and outstanding debt usually determine the maximum amount of debt an entity can sustain.

In Texas as a whole, approximately $1.5 to $2.0 billion[12] is utilized annually to develop water infrastructure projects with the primary funding source being the issuance of local municipal bonds sold in the pubic bond market. About $400 million are purchased annually by state or federal agencies in the form of general long-term debt, some with small grant subsidies.

Smaller cities, communities, and rural utilities have difficulty utilizing this type of financing due to their inability to guarantee repayment of general long-term debt. Or, in some cases, they are unable to obtain enough debt to meet their capital needs. They must rely on loan and/or grant funding sources to meet their financial needs for infrastructure development. Many do not have the technical and fiscal expertise to undertake a major capital improvement without outside assistance, which severely limits their planning for long-term water infrastructure development.



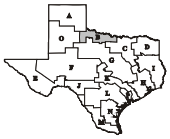
GENERAL OBLIGATION OR REVENUE BONDS: (continued)

In some instances, regional authorities or large water districts will assist smaller public water supply entities in obtaining the capital needed through the issuance of third party contract revenue bonds on another entity's behalf to be sold to a state or federal agency or the public bond market. This type of financing again relies on the entity's ability to generate revenue to pay the debt services under contract conditions. The entity obtaining contract financing retains ownership and the new debt is viewed as an operating expense on a first-lien basis. In any case, the entity must provide assurances for the full retirement of the indebtedness without fear of default.

STATE AND FEDERAL LOAN/GRANT ASSISTANCE FUNDS:

The State of Texas has a few agencies with the statutory authority to make loans, capitalization grants, and provide technical services to public entities needing assistance with water infrastructure financing and development. Some of the most popular agencies are the Texas Water Development Board (TWDB), the Office of Rural Community Affairs (ORCA), the Texas Department of Agriculture (TDA), and the Governor's Office. Some of the federal agencies that provide financial assistance and limited grants are the United States Department of Agriculture (USDA), the United States Department of Housing and Urban Development (USHUD), and the United States Environmental Protection Agency (USEPA). Most, if not all, of these agencies provide loans, technical assistance, and partial grants for water and wastewater infrastructure development. Most grants, however, are very restrictive, competitive, and target public entities who have exhausted all other means of financing. Many are restricted to economically distressed areas (EDA) having no self-supporting alternatives for obtaining financial assistance.

The most commonly utilized public assistance programs reside with the Texas Water Development Board, who administers several loan and loan/grant programs[13] designed to address the water and wastewater needs throughout Texas. The TWDB has become the largest lender of this type and the best alternative source of low cost financing for all entities providing public utility services in Texas. The TWDB's established loan programs are intended to provide low-interest debt obligations, typically one or two interest points below prime, and limited grants to any political subdivision of the state, nonprofit water supply corporations, other state agencies, and privately-owned water systems for the purpose of financing qualified water, wastewater, flood control, and nonpoint source pollution projects.



STATE AND FEDERAL LOAN/GRANT ASSISTANCE FUNDS: (continued)

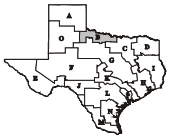
Funding is primarily directed toward projects that address basic public services, health concerns, or environmental regulatory compliance initiatives relating to drinking water quality or wastewater treatment. Examples of these type programs are the traditional Water and Wastewater Loan Program, the Clean Water and Drinking Water State Revolving Funds (federal), referred to as the SFR Funds, the Agricultural Water Conservation Loan Program, and the new Water Infrastructure Fund and the Rural Water Assistance Fund created under Senate Bill Two.

Since 1957, the TWDB has provided more than $2.68 billion[13] for financing water-related projects which appear to be administered very judicially. Currently, the TWDB has been providing approximately $500 million[14] per year to Texas communities through various water and wastewater loan assistance programs and approximately $100 million per year in state and federal grants to economically distressed areas under its jurisdiction. The State currently provides between $3 to $4 million per year in direct appropriations for use in loan forgiveness and/or grants to match loan funds.

However, funding levels for all of these state participation programs have been severely limited. Grant funds are primarily restricted to economically distressed areas (EDA), and the sum of all of the programs are not sufficient to meet the expected capital needs identified in the 2002 State Water Plan.

Following is a list of **Available Financing Alternatives, Table 2**, that are obtainable by political subdivisions, districts, water supply corporations, investor owned utilities, and, on a limited basis, private entities in Texas for water and wastewater, and related non-traditional water resource project financing. It should be noted that rates and funding levels are for illustrative purposes and represent approximate fund balances as of February 2002, unless otherwise noted as an annual funding level.

Most funding sources are very competitive and applications are considered on a first come first serve basis. All sources illustrated in the table represent tax exempt funding, but some fund uses in the private sector are subject to tax. This does not represent all loan and loan/grant funding sources that are available in Texas, or the maximum amounts that may be obtained if properly pursued.

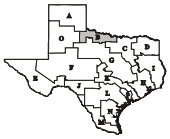


STATE AND FEDERAL LOAN/GRANT ASSISTANCE FUNDS: (continued)

AVAILABLE FINANCING ALTERNATIVES
Table 2

Funding Agency	Program Name	Average Percent Interest	Grant	Term Limit (Years)	Available Funding (Millions)
TWDB	Water and Wastewater Loan Program	5.56	0	25	$2,300
TWDB	Water and Wastewater EDA Program	5.53	35	20	100
TWDB	Drinking Water SRF Program	3.35	15-35	20	* 70
TWDB	Clean Water SRF Program	3.9	15-35	30	362
TWDB	Agriculture Conservation Fund	2.11	75	25	50
TWDB	State Participation Programs(Deferred Int/Pi)	5.58	0	35	* 25
TWDB	Water Infrastructure Fund	5.56	10	25	100
TWDB	Rural Water Assistant Fund (<10K Pop)	5.56	35	40	25
TWDB	Rural Community W&W Fund (<5K Pop)	4.00	5-50	20	* 1
USHUD	Community Development Program	5.5-6.3	50	30	* 35
USDA	Texas Water/Environmental Program (<10K)	5.5-6.3	25	25	* 28
USDA	Texas Rural Utilities Service (<10K)	4.5-6.1	75	40	* 30
TDA	Rural Development Program	5.0-6.0	30-70	25	2
NRCS	Small Watershed Program	–	100	50	* 2
USEPA	Regulatory Compliance Program	–	50	–	* 5
TNRCC	Regulatory Compliance Program	–	45	–	* 2
ORCA	Small Town Environment Program (STEP)	–	50	–	* 3
TCDP	Community Development Program	–	50	–	* 49
Approximate Funding Currently Available		—		—	**$3,189**

** Approximate annual funding level*



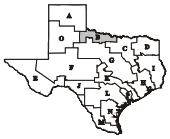
STATE PARTICIPATION PROGRAM:

The TWDB's State Participation Program provides an excellent means of obtaining financial capital for communities desiring to optimize the development of infrastructures. The State Participation Program is designed to promote regionalization or consolidation of smaller utilities into a larger entity, thereby meeting the long-range water and wastewater needs of all those participating. This option affords the participants the opportunity to capitalize on the economies of scale where the TWDB provides up-front capital for full development of a regional water or wastewater project. It is especially useful in the development of costly reservoirs, pipelines or transmission lines, and treatment facilities for water and wastewater systems.

The program requires the participants to ultimately repurchase the State's undivided interest in the regional facility and allows up to 50 years for the project service area to fully develop and repay the State for its participation. While regionalization is well recognized for its achievements in promoting economies of scale, opportunities for improved public services, and improved water use efficiency, the State has had limited resources to invest toward regional solutions and many smaller communities decline to participate in a regional endeavor unless a major crisis forces the issue. The driving deterrence appears to be the fear of losing their individual autonomy and ultimately, control of their own destiny. Many rural areas are sparsely populated with generally static growth patterns further prohibiting the economies of scale to work for the benefit of the people willing to participate.

Generally, all state loan and loan/grant programs rely on the State's resources, whereby the TWDB sells bonds of a higher credit quality to generate funds for low interest loans to communities that cannot obtain better interest rates elsewhere. Some of the bond proceeds are utilized to leverage funding levels by attracting federal grant subsidies.

Most, if not all, of the TWDB's loan and loan/grant programs are subject to numerous restrictions that typically require a great deal of added administrative cost on the part of the participants from the initial application stage through managing the loan proceeds to duplicative and slow approval processes of plans and specifications, making this alternative a "last resort" means of financing capital improvements or developing new regional water infrastructures.



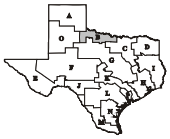
PROPOSITION 19:

On November 6, 2001, the voters of Texas approved a Constitutional Amendment which authorized the Texas Water Development Board (TWDB) to issue up to $2 billion in additional general obligation bonds. The TWDB proposes to use the bond proceeds to expand its present state participation programs and continue to offer low-interest loans to Texas communities for a variety of water supply, water quality projects, flood control, and state participation in the development of infrastructure projects.

Fifty million dollars of the bond proceeds were earmarked for a Water Infrastructure Fund created by Senate Bill Two (77th Legislature) in 1999. Proposition 19 also removed the current restriction on the percentage of state participation in regional water infrastructure projects and allowed the TWDB, through the State Participation Program, to acquire up to 100% undivided interest in any single regional water infrastructure project.

Under this program scope, the State absorbs most of the initial cost of project development and recovers its principal, interest, and other related costs as the participants purchase the State's ownership in the project with revenues generated from the ultimate customer base. In this manner, the taxpayers do not have to bear the additional tax burden without a direct benefit. This investment by the State enables local governments the opportunity to optimally design their facilities or projects to meet long-term growth needs at a much lower initial cost of debt than they could otherwise afford on their own.

Proposition 19 effectively expanded the TWDB's ability to meet infrastructure development needs for the entire State. This initiative, on the part of the Legislature and the people of Texas, can only address approximately 85% of the capital needs across Texas, at least for the next decade. However, it should not be confused as being any form of a grant. All bond proceeds are to be eventually repaid to the TWDB with interest.

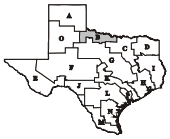


PUBLIC GRANT SUBSIDIES PROGRAMS:

Since the enactment of the Federal Safe Drinking Water Act and the Federal Clean Water Act, many public water providers have relied upon federal grant subsidies for obtaining capital financing to meet many of the mandates. Additionally, grants have been available through several federal and state programs to assist public entities with infrastructure development. However, many of the grant funding sources have been diverted to state managed programs where matching funds are required. Much of the remaining grant funding sources is restricted to economically distressed areas having no other means of obtaining financial assistance to meet their capital needs. Some of the grants currently available are from the United States Department of Agriculture Rural Development Fund, United States Department of Housing and Urban Development, Community Block Grants, and Small Towns Environment Program Grants.

Recently the 77th Legislature (Senate Bill Two) established and partially funded the Water Infrastructure Fund with $50 million for providing financial assistance to communities desiring to develop infrastructures to meet growing water supply needs. This fund, although not specifically stated, could be utilized for management of grant subsidies programs to leverage other TWDB loan funds similar to that accomplished in the SRF Funds. Senate Bill Two also created the Rural Water Assistance Fund to address the critical needs of small rural communities with low interest loans, grant subsidies, and technical assistance. However, no funds were appropriated for this purpose[15].

The TWDB currently utilizes approximately $25 million of its bond proceeds annually to meet the State's match requirements for federal water and wastewater grant programs. About $125 million in federal capitalization grants are then placed in the two SRF Funds for providing low-interest loans to finance water and wastewater projects throughout the State. However, the initial $50 million will not be sufficient to meet identified needs and alternative funding sources will need to be identified if the Water Infrastructure Fund is to become an equitable source of financial assistance for communities demonstrating a need statewide. Funding the Water Infrastructure Fund could come from direct appropriations by the Legislature, federal grant subsidies, a tax on the sale of bottled water, or a combination of all of the above. The TWDB estimates that Texas will likely have a need for approximately $108 billion in capital needs for financing water related projects by 2050 based on the State's present rate of growth.



POLICY RECOMMENDATIONS

The best and most equitable solutions to meeting the water infrastructure needs for Region B and the State as a whole are already in place and could be made to work for the benefit of the people much more efficiently simply be reducing much of the "bureaucratic red tape" involved in the currently available loan programs under the Texas Water Development Board's jurisdiction.

The TWDB has a longstanding record for good stewardship of the resources it has been provided, but it too has fallen prey to excessive administrative requirements, which equates to added financing cost to the potential beneficiaries of the programs.

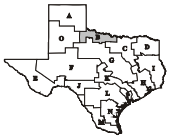
The people of Texas responded through the passage of Proposition 19 to provide up to $20 billion in guaranteed general obligation bonds to ensure that funds would be available for meeting the water infrastructure capital needs of all Texans. It also demonstrated the people's faith in the Texas Water Development Board's ability to prudently manage the proceeds on behalf of the citizens of the State.

Policy recommendations have been solicited from the RWPG members, participating entities, and the general public within the Region B planning area in consultation with professionals in the field of local governmental finance[16]. The comments were assembled according to their responses to specific questions and paraphrased here for selection as stated policy recommendations by the RWPG-B Planning Board. They are listed with a brief explanation as follows:

1. The Texas Water Development Board should be the State's sole agency for providing and administering loan and loan/grant funds to finance water and wastewater infrastructure and non-traditional water resource projects providing that:

    a. The present system be scrutinized to reduce the administrative red tape currently involved in obtaining and managing loan and loan/grant funds for qualifying water and wastewater projects. The various loan/grant programs should be made more accessible to potential recipients (customers). This could be accomplished by providing:

        (1). A web-based online information system regarding available fund balances by type and purpose together with general qualifying factors for the applicant to determine potential applicability to their specific financial need or request for assistance.



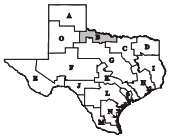
POLICY RECOMMENDATIONS (continued)

(2). An online rules-based application or survey form, much like online banking institutions use via the Internet, to enable the applicant with the tools to determine the amount of capital that could be obtained based on individual responses to qualifying questions that would result in an estimated cost of the proposed financing.

(3). An example of a typical online query similar to e-commerce (without monetary transactions taking place) is the virtual private network (VPN) whereby a potential applicant could ascertain the approximate maximum funding level, interest rate, and term of indebtedness based on qualifying information provided by the applicant, i.e., current outstanding indebtedness, net revenue available to pledge against new debt services, current customer base, etc. The potential applicant should be able to receive a user-friendly definitive plan of action to assist them in meeting their individual water resource financing needs. At the very least, a determination could be made concerning the entity's ability to finance their proposed capital projects prior to the expenditure of local fiscal resources.

b. Since most of the TWDB's funding programs were established by statute of previous legislative sessions, the Legislature should combine the many single purpose funding programs having independent governing rules into no more than three managed funds, thereby reducing the complexity of obtaining financial assistance.

For example, the current conglomerate of loan and grant programs could be more effectively administered out of three separate, but interactively supporting funds governed under a common set of rules and type-specific qualifying criteria to address the Legislature's intent of meeting the public needs. By maintaining only three interactive funds, all proceeds could be managed much more efficiently with a much higher level of accountability.



POLICY RECOMMENDATIONS (continued)

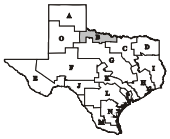
(1). **Fund I** could serve as the primary source of low interest funding for the Deferred State Participation, the Water Infrastructure Fund, and all other loan programs for water and wastewater infrastructures to public and private entities. The estimated funding level or volume cap needs to be about **$15 billion** over the next 50 years.

(2). **Fund II** could serve to provide low interest loans for all other types of financing that the TWDB currently provides including: research, planning, conservation initiatives, flood control, agricultural water conservation projects, nonpoint source pollution control projects, solid waste disposal facilities, water quality enhancement, and the economically distressed areas throughout the State. The estimated funding level or volume cap needs to be about **$5 billion** over the next 50 years.

(3). **Fund III** could serve as a special fund to receive and administer the accumulation of grant subsidies for use in leveraging capital resources (loan funds) obtained from Fund I or Fund II to qualifying applicants. The grant funding level needs to be approximately **$1 billion** over the next 50 years. Grant subsidies should only be utilized in support of low interest loans out of Fund I or Fund II, stipulated upon meeting the existing set of qualifying criteria for hardship or economically distressed areas (EDA) and demonstrating the ability to eventually become self-supporting.

c. The TWDB should maintain an equitable priority ranking process for **all** water and wastewater projects requesting financial assistance in the form of loan or loan/grant applications with higher priorities or a point weighting criteria assigned to projects with urgent public service or compliance needs that adequately address:

(1). Compliance with public health and safety issues,
(2). The minimum planning horizons of at least 20 years,
(3). Participation in a regional project where applicable,



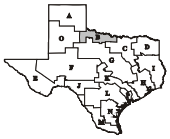
POLICY RECOMMENDATIONS (continued)

(4). The needs of small, rural communities unable to participate in a larger or regional system,
(5). Optimum conservation measures or practices are implemented to effectively reduce the total water usage in all use categories,
(6). The project's ability to coexist equitably with the environment,
(7). Reclamation or demineralization of impaired existing water sources,
(8). The employment of recycling or reuse programs where feasible,
(9). The willingness of the recipient to obtain or develop the required managerial and technical expertise to maintain the project once implemented, and
(10). The development of a plan to attain its financial self-sufficiency.

d. The TWDB should provide its customers and the public an annual Operating Statement that accurately reflects the State's financing activities for the fiscal year ending, including revenue, expenditures, and fund balances. If the RWPGs are to determine the appropriate methods for the State to fulfill the role of financing water and wastewater infrastructure needs, then the historical financial data should be readily available for making informed recommendations toward meeting the identified needs of all Texas communities. This could be accomplished with an audited financial statement disclosing the TWDB's overall financial activities showing the strengths and weaknesses of all funding mechanisms under its jurisdiction.

e. The TWDB should be allowed to retain all bond proceeds and appropriated funds not obligated for loan commitments, including debt service payments received. It should be authorized to invest and reinvest all funds considered idle in accordance with the Public Funds Investment Act and prevailing arbitrage regulations in an effort to leverage available fund balances and defray the agency's fiscal operating cost.

(1). Based on the estimated capital needs for the ensuing five-year planning cycle, the TWDB should be authorized to issue sufficient amounts of general obligation bonds to fully back the loan fund accounts in that adequate finances will be available.



POLICY RECOMMENDATIONS (continued)

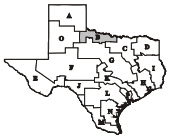
(2). During the period bond proceeds are available, but not obligated to loan commitments, the TWDB should invest those proceeds to offset the debt services cost while funds are idle.

(3). By issuing bonds once for a larger amount than the amount actually needed, rather than several smaller bond issues, the cost of issuance (legal, financial, and administrative fees) could be greatly reduced with the benefits passed on to the borrower.

2. The role of the State should be expanded with Legislative appropriations to ensure that all water resource needs adequately address the State Water Plan goals, moreover, the Regional Water Plan. The State assistance should be directed to supplement all communities regardless of size, that prove to be economically feasible and yield at least a positive benefit to cost ratio of 1.25:1 with:

   a. Implementation of the water management strategies identified by the regional water planning groups,
   b. Participation in cost effective regional projects as the highest priority, but not limit the State's support where a regional project is not feasible,
   c. Financial assistance in the form of partial grant subsidies to disadvantaged communities or communities with limited access to traditional capital markets for obtaining low interest loans, and
   d. Support for non-traditional water resource solutions such as agricultural conservation programs, brush control, rainwater harvesting, cloud seeding, resource reclamation, and/or advanced conservation measures with appropriated funds for loans and grants.

3. The Legislature should pledge adequate funding through the TWDB to effectively meet the water infrastructure financing needs identified in the State Water Plan and subsequent revisions with consideration given to the following potential funding sources:



POLICY RECOMMENDATIONS (continued)

a. By a Constitutional Amendment and endorsement of the voters of Texas, authorize the issuance of the State's General Obligation Bonds in an amount necessary to meet at least 80% of the forecasted water and wastewater infrastructure needs identified at the close of each five-year update or revision of the State Water Plan. For example, as was accomplished through Proposition 19 on November 6, 2001, with the stipulation that any unused portions of the bond proceeds are carried forward to the next planning cycle, thereby reducing the needed capital for the ensuing five-year period.

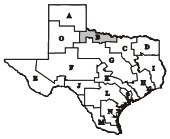
(1). General obligation bonds should be issued in sufficient quantity as soon as the projected needs have been identified and validated for feasibility in that funds would be readily available to use.

(2). The TWDB should be permitted to retain and invest the bond proceeds prior to loan commitments in an effort to leverage the total funds available and reduce fiscal overhead costs associated with financing arrangements.

b. The Legislature should appropriate out of the State's General Revenue Fund at least $50 million annually to the TWDB for use as match-funds for obtaining more of the State's fair share of federal grant subsidies that are available to be leveraged with low interest loans for smaller rural communities who cannot qualify for grant subsidies under the present criteria and funding levels. The primary qualifying criteria should be centered upon the entity's ability to:

(1). Demonstrate the need for a grant subsidy beyond their present ability to repay additional debt due to excessive water rates and local taxes creating an economic hardship to its citizens,

(2). Show that unfunded mandates of the federal Clean Water Act or the Safe Drinking Water Act will actually impose an economic hardship to achieve compliance with the specific regulations, and



POLICY RECOMMENDATIONS (continued)

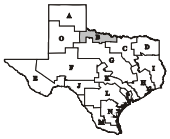
(3). Demonstrate their willingness to adopt, implement, and maintain an effective operations plan, water conservation plan, and drought management plan.

c. Or, the Legislature could impose a tax at the point of sale on all bottled drinking water provided for public consumption. It has been estimated that a sales tax of 5% on the retail cost of bottled drinking water, up to the first five gallons, would effectively generate approximately $50 million annually.

(1). These funds should be dedicated to the proposed TWDB Fund III for use in attracting federal grants. This approach should attract at least $150 to $200 million in federal grant funds per year for use in matching loan funds to a number of communities that do not qualify for grant subsidies under the present criteria and funding levels.

(2). Currently there are 53 of the 254 Texas counties (20.8%) eligible for subsidy under the Economically Distressed Areas[17] (EDA) criteria. The maximum funding level over the next 50 years is estimated at $3.5 billion, or approximately $70 million per year, if all identified project needs meet the attendant funding qualifications and are subsequently deemed feasible.

d. The Legislature should direct all current state or federal grants managed by other state agencies relating to community development or assistance programs to be administered under the TWDB's proposed Fund III. By providing one-stop shopping for potential loan and loan/grant customers needing financial assistance for all water related projects, much of the duplication of effort due to overlap in jurisdictions and inadequate funding levels could be eliminated, and the public would experience an immediate increase in accessibility of available grant funding. A noticeable reduction in the overall cost of grant administration should be realized by the consolidation process, thereby providing the optimum benefit to the public who actually needs the financial assistance.



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2. 2001 Regional Water Plan for Area B, Chapter 2, page 2-1

3. 2001 Regional Water Plan for Area B, Chapter 3, page 3-20

4. 2001 Regional Water Plan for Area B, Chapter 4, page 4-3

5. 2001 Regional Water Plan for Area B, Appendix A, Table 12, Recommended Water Management Strategies by City and Category

6. Interview: City of Wichita Falls; Mr. George Bonnett, Office of Public Works, 02-14-02; Mr. David Lehfeldt, Manager of Utility Operations, 02-20-02

7. Interview: City of Vernon; Mr. Jim Murray, City Manager, 02-21-02

8. Interview: Hinds-Wildcat Community Water System; Mr. Curtis Campbell, Director of Operations, Mr. Randy Cook, Regional Manager, 02-12-02

9. Interview: Lockett Community Water System; Mr. Curtis Campbell, Director of Operations, Mr. Randy Cook, Regional Manager, 02-13-02

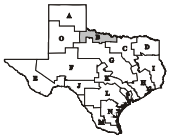
10. Interview: City of Electra; Mayor Curtis Weddle, 02-21-02

11. 2001 Regional Water Plan for Area B, Chapter 5, pages 5-73

12. Office of the Attorney General of Texas, Division of Public Finance, Bond Counsel Correspondence Archive, 1998-2001
    Directory of Municipal Bond Issues, 2001

13. Texas Water Development Board, Financial Assistance Programs, online at: URL http://www.twdb.state.tx.us/assistance/financial/fin_infrastructure/Wrd-007.htm

Development Fund II	Rule 363	State
Drinking Water SRF	Rule 371	Federal
Disadvantaged DWSRF	Rule 371	Federal
Economically Distressed Areas Program	Rule 355, 363	State
State Participation Program (Water)	Rule 363	State



Water Infrastructure Fund	Rule 382	State
Rural Water Assistance Fund	Rule 384	State
Rural Community Water Fund	Rule 363	State
Self Help Water Program	—	State
Clean Water SRF	Rule 375	Federal
Wastewater EDA Program	Rule 363	State
Colonia Wastewater Treatment Assistance Program	Rule 355, 363, 375	Federal
State Participation Program (Wastewater)	Rule 363	State
Rural Community Wastewater Fund	Rule 363	State
Self Help Wastewater Program	—	State

14. Interview: Mr. Kevin Ward, Fund Manager, Texas Water Development Board, 03-07-02, 03-08-02, 03-19-02

15. Stakeholder Policy Issues Conference, Financing Water Infrastructure, Kevin Ward and Deborah Reyes, Texas Water Development Board

16. Interviews: Mr. Jeff Leuschel, Bond Counsel, McCall, Parkhurst and Horton
Mr. David Medanich, Financial Advisor, First Southwest Company
Mr. Kevin Ward, Development Fund Manager, Texas Water Development Board

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